

Comptroller's Directive No. 3-07
Attachment 5
Leave Liability Statement – CIPPS and Non-CIPPS Users

Purpose

This attachment is used to accumulate leave liability information for recording compensated absence liabilities in accordance with GAAP. This attachment is similar to prior year's Attachment 5.

Applicable agencies

All agencies and funds with compensated absence liabilities (whether CIPPS is used or not) that are **not** included on a financial statement template must complete this attachment.

Note: The Payroll Service Bureau will complete Part 1 of the attachment related to CIPPS users for all agencies using the Bureau's services and will forward the attachment to the agency for review and approval. These agencies must still complete Questions A through E on the CIPPS-Part 1 tab and submit the attachment to DOA using the submission requirements below.

Note: Since the Library of Virginia, the Department of Corrections, and the Department of Mental Health, Mental Retardation, and Substance Abuse Services use CIPPS for some employees, DOA will provide the U007 and U008 reports to assist in the preparation of Part 3 of the Non-CIPPS tab, if requested. Contact Sharon Lawrence at (804)-225-2414 or Sharon.lawrence@doa.virginia.gov to receive these reports.

Due date

August 2, 2007

Certification

The **Certification** tab is new for FY 2007, and it requires all preparers and reviewers to type their name on this form. Please note that there should be a segregation of duties; therefore, the preparer and the reviewer should not be the same individual for any tab. By typing a name, the individual is certifying that all tabs of this attachment have been reviewed, the information is both complete and accurate, and the preparer and reviewer were not the same individual for any tab.

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Submission requirements

Contact DOA if the agency has any problems with the spreadsheets.

After downloading the files, rename the spreadsheet file using the agency number followed by Att5. For example, agency 151 should rename its Attachment 5.xls file as 151Att5.xls.

Submit the Excel spreadsheet electronically to finrept-agyatt@doa.virginia.gov.

Copy APA via e-mail to APAFinRept@apa.virginia.gov.

Do not submit paper copies of the Excel spreadsheet.

Attachment revisions

If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the Revision Control Log Tab in the attachment excel file.**

Enter the revision date, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

Each time a revision is submitted the **Certification** tab should be updated with new signatures and dates.

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Definitions

Current Leave Liability – The portion of accrued leave liability associated with employees who terminated on or before June 24, 2007, and who will not be paid for compensated leave until after June 30, 2007.

Long-term Leave Liability – The liability for accrued annual, sick or disability credits, compensatory, overtime, on-call leave, and applicable sabbatical leave for all leave-eligible employees employed by the State on June 25, 2007.

- **Long-term Leave Liability Due Within One Year** – The portion of long-term leave liability that is due within one year after the fiscal year end. For fiscal year 2007, it is the liability due by June 30, 2008.
- **Long-term Leave Liability Due Greater Than One Year** – The portion of long-term leave liability that is due after June 30, 2008.

Note: Current leave liability is based on actual amounts owed and is reported on the modified accrual basis of accounting whereas long-term leave due within one year is an estimate of leave to be paid and / or used within one year after fiscal year end and is reported on the full accrual basis of accounting.

For governmental funds, only the current leave liability (as defined above) should be reported in the fund statements. The long-term amount due within one year and the long-term amount due greater than one year should be reported in the government-wide statements.

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GASBS No. 16
requirements

GASBS No. 16, *Accounting for Compensated Absences*, requires the accrual of compensated absence liability, regardless of fund type. Leave liability should include the following:

- Employer's share of Social Security and Medicare taxes on all accrued compensated absences
 - Termination payments for sick leave or disability credits limited to the lesser of 25% of leave earned or \$5,000
 - Other leave earned such as sabbatical leave (if unrestricted in nature), on-call, overtime, and compensatory leave that has not been used by or paid to the employee
 - Employer contribution payments made to defined contribution or cost-sharing multiple employer defined benefit pension plans, if associated with service
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**Impact of
Virginia
Sickness and
Disability
Program
(VSDP)**

For those employees who participate in the VSDP and converted sick leave balances to Virginia Retirement System service credit, the accrual for compensated absences will no longer include an amount for sick leave.

However, for those employees who participate in the VSDP and converted sick leave balances to disability credits, the accrual for compensated absences **will include an amount for disability credits**. The calculation of this amount should result in the same amount as would have been calculated for sick leave had these employees remained in the non-VSDP sick leave program. The sick leave or disability credits liability is limited to the lesser of 25% of leave earned or \$5,000.

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**Functional
codes defined**

Functional codes are the first number in every service area. For example, service area 1031000 “Community Services” would fall under the “Education” function. Each functional code and its corresponding description are below.

1-Education
3-Administration of Justice
4-Individual and Family Services
5-Resources and Economic Development
6-Transportation
7-General Government
8-Enterprise

**Social Security
and Medicare
taxes**

The CIPPS reports have been modified to include the Social Security (6.2% on a maximum salary base of \$97,500) and Medicare taxes (1.45%, no salary limit) on the accrued leave.

**General
Information
and Summary
of Attachment**

Information should only be entered in yellow cells. Validation fields have been created to ensure agreement between appropriate amounts reported on each page. If error messages are displayed, please revise the information as required to eliminate the error messages.

The leave attachment is comprised of the following:

- Contact Information
 - Questions A-E
 - Part 1 – Leave Liability on CIPPS
 - Part 2 – Leave Liability NOT on CIPPS
 - Part 3 – Non-CIPPS Leave Liability Due within One Year and Due Greater than One Year (Pages 9 and 10 provide an auditor approved methodology that can be used to complete Part 3)
 - Part 4 – Non-CIPPS **GASBS No. 34** Footnote Disclosure
 - Part 5 – Variance Analysis
 - Certification Tab
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**Completing the
contact
information**

It is only necessary to enter the contact information on the CIPPS-Part 1 tab. The contact information is linked to the remaining tabs. All agencies should select the agency number from the drop-down box and complete the remaining contact information.

The prior year total leave liability will be entered automatically when the agency number is selected.

**Completing
Questions A
through E**

All agencies and funds that are not included on a financial statement template must answer ALL the following questions to determine what parts of the attachment must be completed. The Part(s) that must be completed are determined by Yes / No answers to the questions and these instructions are included on the excel attachment.

- A) Does the agency use CIPPS leave?
 - B) Are there any adjustments required to correct the total shown on the Leave Liability Database on DOA's website? See the discussion concerning the Leave Liability Database on the following page.
 - C) Does any of the total leave liability reported in Part 1 (Step 4) represent current leave (leave for employees terminated on or before June 24, 2007, but will be paid after June 30, 2007)?
 - D) Does the agency have compensated absence liabilities that are not reported on CIPPS?
 - E) Is the variance between the current and prior years balance greater than 10% and \$1,500,000?
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**Completing
Part 1- Leave
Liability on
CIPPS**

DOA has extracted leave data from the CIPPS file. This data is provided in the **Leave Liability Database** file posted on DOA's website at www.doa.virginia.gov. Click on the "Financial Reporting" link, then click on "Financial Statement Directives." **Note: The file will not be available on the website until mid-July 2007.**

The **Leave Liability Database** file has been modified to combine various reporting funds (i.e., 0100 and 1100, 0200 and 2200). In addition, if any leave liability amounts were coded to capital outlay (functional code 9) these amounts have been combined with the most predominant expenditure functional code used by the agency.

Determine whether any adjustments are required to correct the total shown on the **Leave Liability Database**. Consider the following items to determine whether the amounts are accurate:

- Did the agency receive leave slips for absences on or before June 24, 2007, that were not processed in CIPPS? The following exceptions **do not** require adjustments:
 - Leave slips for absences during June 25, 2007, through June 30, 2007
 - Late leave slips for leave taken prior to June 25, 2007
 - Will the agency have payouts to terminated employees paid after June 24, 2007, but prior to July 1, 2007?
 - Does the agency have additional leave liability for sabbatical leave or non-VRS pension contributions not accounted for on CIPPS?
1. Make the necessary adjustments based on the questions above and enter the totals in Part 1 (Steps 1 through 4).
 2. Determine if any of the total entered in Step 4 represents current leave liability (leave liability amount for employees terminated on or before June 24, 2007, but will not be paid for the leave until after June 30, 2007). Enter any current leave liability in Step 5. The long-term leave liability will be automatically calculated in Step 6.

Note: Do not confuse current leave liability with leave liability due within one year. DOA will calculate the leave liability due within one year for all leave amounts on CIPPS.

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**Completing
Part 2 – Leave
Liability NOT
on CIPPS**

Perform the following steps to calculate leave liability for employees that are not on CIPPS:

1. Determine the leave balance at June 24 for each employee, using the agency's records. Leave should include annual, compensatory, overtime, on-call, **25% of sick or disability credits**, and applicable sabbatical leave.
2. Determine each employee's hourly rate by dividing the annual salary at June 24 by standard full time hours of 2,080.
3. Multiply the hours for each leave category by the hourly rate. (**See special instructions on Page 3 for sick leave or disability credits.**)
4. Calculate and include employer's tax payment for Social Security and Medicare on the leave liability. Based on individual employee salaries, Social Security is 6.2% on a maximum salary base of \$97,500 and Medicare is 1.45% on all salaries.
5. Compute additional leave liability for sabbatical leave and any pension contributions if applicable. (Since VRS is an agent multiple-employer defined benefit plan, no additional accrual is necessary for VRS contributions.)
6. Allocate the leave liability for each employee to the appropriate funds based on the total salary provided by each fund / fund detail and function. (Functions are described on Instructions – Page 5 of this attachment.)
7. Aggregate the information at the agency level.
8. Enter the totals by Agency, Fund Detail, and Function in Part 2 (Steps 1 through 4).
9. Determine if any of the total entered in Step 4 represents current leave liability (leave liability amount for employees terminated on or before June 24, 2007, but will not be paid for the leave until after June 30, 2007). Enter any current leave liability in Step 5. The long-term leave liability will be automatically calculated in Step 6.
10. Retain copies of all computations for review by auditors.

Note: Do not confuse current leave liability with leave liability due within one year. The agency must calculate leave due within one year in Part 3 for amounts NOT on CIPPS.

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**Completing
Part 3 –
Manually
Calculate the
Non-CIPPS
Amount Due
within one year**

The total leave liability NOT on CIPPS was already entered in Part 2 (Step 4). **GASBS No. 34** requires that this amount be reported on the Government-wide Statements in two line items - amount due within one year and amount due in greater than one year. Agencies have to manually calculate the portion that is due within one year.

Leave liability becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances. These events cannot be known reliably in advance so the amount due within one year must be estimated.

The following is an auditor approved suggested methodology. **Upon calculating the long-term leave liability due within one year and greater than one year, report the amounts in Part 3.**

Perform the following steps to calculate the amount due within one year.

1. Project the number of annual and sick leave hours that will be accrued in the next fiscal year (July 1, 2007, to June 30, 2008) for each employee and in total. (Maximum carry forward limits should not have to be taken into account as the amount accrued in a 12 month period cannot exceed the maximum limits by years of service.)
2. Determine each employee's hourly rate by dividing the salary rate at June 24, 2007 by standard full time hours of 2,080.
3. Multiply the projected hours in Step 1 for each leave category by the hourly rate.

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Completing Part 3 – Manually Calculate the Non-CIPPS Amount Due within one year (continued)

4. Calculate a percentage for annual leave hours used and paid out compared to annual leave hours accrued. Calculate a second percentage for sick leave hours used and paid out compared to sick leave hours accrued. (For example, agency XYZ used and / or paid out 1,000 hours of annual leave. The annual leave hours earned for agency XYZ were 4,000. Therefore, the percentage factor for XYZ annual leave usage would be 25%). **This calculation can be done on a fiscal year or calendar year basis using historical data.**
 5. Multiply the percentages for annual and sick leave usage in Step 4 by the projected annual and sick leave liabilities calculated in Step 3.
 6. Aggregate the information for annual and sick leave in total. This is the amount due within one year.
 7. Adjust the long-term leave liability for the amount due within one year.
 8. Retain copies of all computations for review by auditors.
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**Completing
Part 4 – Non-
CIPPS GASBS
No. 34 footnote
disclosure**

The following information is required footnote disclosure under **GASBS No. 34**.

- Beginning Balance – should equal the prior year ending balance.
- Increases – use the projected amount calculated in Step 3 from FY 2006 or actual current year information.
- Decreases – calculated amount since other three amounts are known
- Ending Balance – should equal the total leave liability calculated.

DOA realizes the projected leave liability amounts are being used as current year increases. (Agencies may calculate increases based on actual current year information.) **The due within one year amount calculated for the current fiscal year can be used as increases in the next fiscal year.**

**Completing
Part 5 –
Variance
Analysis**

The total leave liability amounts entered in Parts 1 and 2 are summed in Part 5. This amount is compared to the prior year ending balance which was entered automatically when the agency number was selected.

Provide an explanation in the yellow box if the variance between current and prior years balance is greater than 10% and \$1,500,000.
